



TENNESSEE Housing Market

3rd Quarter 2013

**MIDDLE
TENNESSEE**
STATE UNIVERSITY

JONES COLLEGE OF BUSINESS

Business and Economic Research Center

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Economic Overview

Tennessee employment declined and unemployment climbed during the third quarter, as the labor market showed signs of weakness. Following gains in the second quarter, nonfarm employment fell nearly 10,000 jobs, mostly in the services-providing sectors, with about half in the government sector. Construction and the information sector represent most of the rest of the job declines. Manufacturing employment held steady from the second quarter.

The labor force fell to its lowest level in four quarters, as the number of persons employed according to the household survey declined from the previous quarter. Some of the job

losers are actively searching for work as shown by the rise in unemployment. More job losers dropped out of the labor force and are not actively searching for new work, causing the labor force to decline.

The job losses reported above contrast with initial claims for unemployment insurance (Figure 1). Initial claims measure the number of new job losers eligible for unemployment insurance. Initial claims fell again during the third quarter, averaging just 5,448 claims per week. This number of new claims is the lowest number in the past six years.

Figure 1. Tennessee initial claims for unemployment insurance (quarterly averages of weekly data, seasonally adjusted)

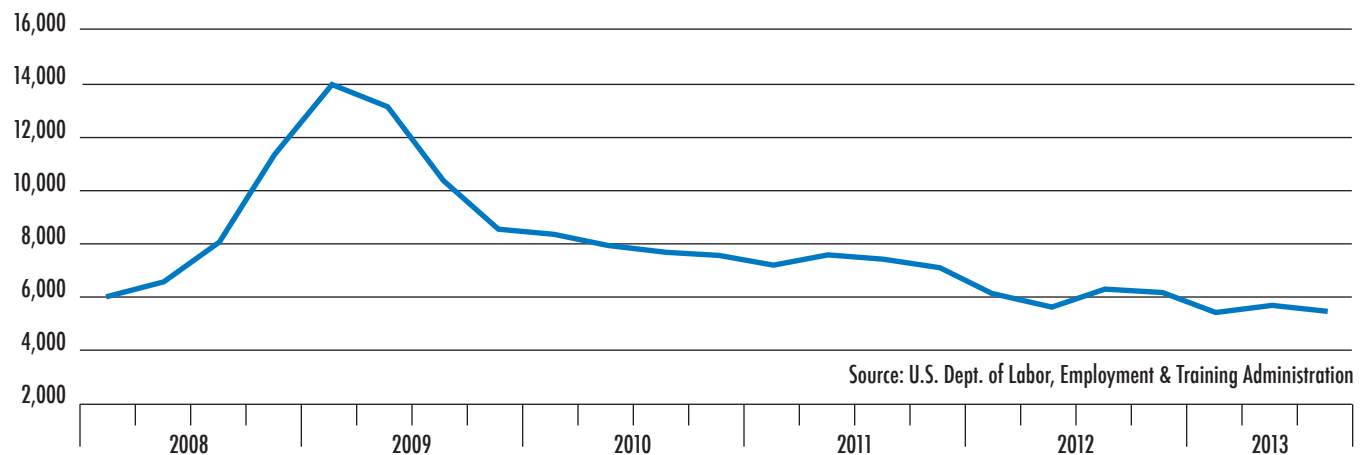


Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

	2012.3	2012.4	2013.1	2013.2	2013.3
Employment by industry (nonfarm)					
Total nonfarm	2,716	2,732	2,753	2,758	2,748
Goods-producing sectors	424	426	428	429	428
Manufacturing	315	317	320	319	320
Services-providing sectors	2,292	2,306	2,325	2,329	2,320
Labor force	3,109	3,121	3,130	3,128	3,112
Total employment	2,858	2,880	2,886	2,870	2,847
Unemployed	251	241	244	258	265
Unemployment rate	8.1%	7.7%	7.8%	8.3%	8.5%

Source: Bureau of Labor Statistics

Housing Construction

Housing construction maintained its pace in Tennessee while activity in much of the United States and the South cooled off in the third quarter. Building permits issued for single-family homes rose 1.9% from the second quarter, but the U.S. and the South experienced declines (Table 2). Over the year, single-family permits are up 24.5% compared with an increase of 15.8% for both the U.S. and the South.

Permits issued for multi-family dwellings fell in all three

areas, with the largest percentage decline in Tennessee. A fall-off in activity is not unexpected, after a very strong second-quarter performance for all three areas.

The swoon in multi-family permits caused total permits to decline in all three areas from the previous quarter, but over the year, Tennessee shows much more growth than the U.S. and the South, with total permits 31% higher in Tennessee compared with 3.8% in the South and 10.3% for the U.S.

Figure 2. Tennessee single-family home permits (thousand units, seasonally adjusted annual rate)

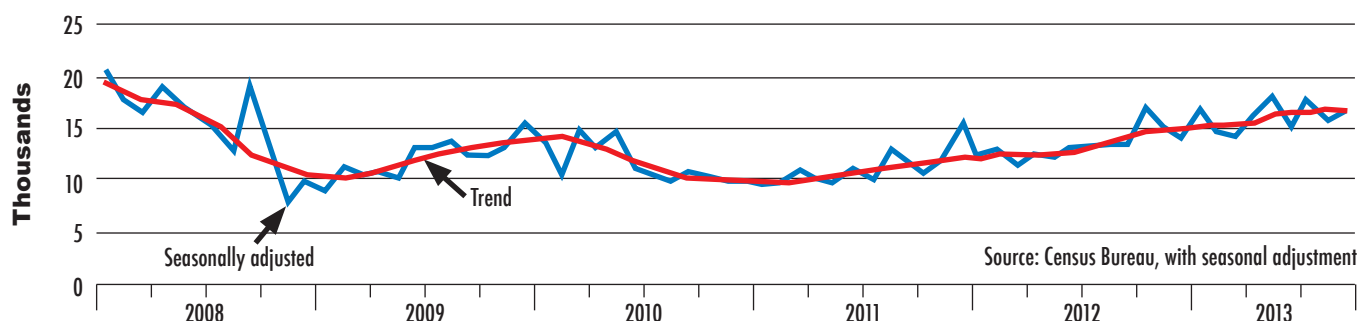


Table 2. Permits issued for privately owned new housing (thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2010.3	10.4	212.0	405.7	4.7	77.7	168.3	15.1	289.7	574.0
2010.4	10.0	209.0	424.3	1.8	58.7	159.0	11.8	267.7	583.3
2011.1	10.1	216.7	399.3	2.2	81.0	167.7	12.3	297.7	567.0
2011.2	10.3	222.3	409.0	2.5	87.3	202.7	12.8	309.7	611.7
2011.3	11.5	229.0	423.0	3.3	91.3	203.0	14.8	320.3	626.0
2011.4	12.8	244.7	448.7	4.4	113.7	242.7	17.1	358.3	691.3
2012.1	12.2	257.7	474.7	6.0	132.0	271.3	18.2	389.7	746.0
2012.2	12.5	261.0	494.7	5.3	142.7	285.3	17.8	403.7	780.0
2012.3	13.3	282.0	533.0	4.8	162.0	329.3	18.1	444.0	862.3
2012.4	15.3	308.3	576.0	3.8	171.0	352.0	19.1	479.3	928.0
2013.1	15.0	316.7	595.7	4.4	145.3	323.3	19.3	462.0	919.0
2013.2	16.3	332.0	619.7	9.3	162.3	349.7	25.5	494.3	969.3
2013.3	16.6	326.7	617.0	7.2	134.3	334.3	23.7	461.0	951.3
Change from previous quarter	1.9%	-1.6%	-0.4%	-22.6%	-17.2%	-4.4%	-7.0%	-6.7%	1.9%
Change from previous year	24.5%	15.8%	15.8%	50.0%	-17.1%	1.5%	31.2%	3.8%	10.3%

Source: Census Bureau

Real Estate Transactions and Mortgages

State tax collections on real estate transactions and new or refinanced mortgages rose again during the third quarter in spite of higher mortgage rates. Tax collections on real estate transactions rose 8.0% from the second quarter

and 18.5% over the year, reflecting growth in the number of real estate deals (Figure 4). Mortgage tax collections increased but at a slower pace, rising 5.1% from the second quarter and 5.3% over the year (Figure 3).

Figure 3. Mortgage tax collections (in millions, seasonally adjusted annual rate)

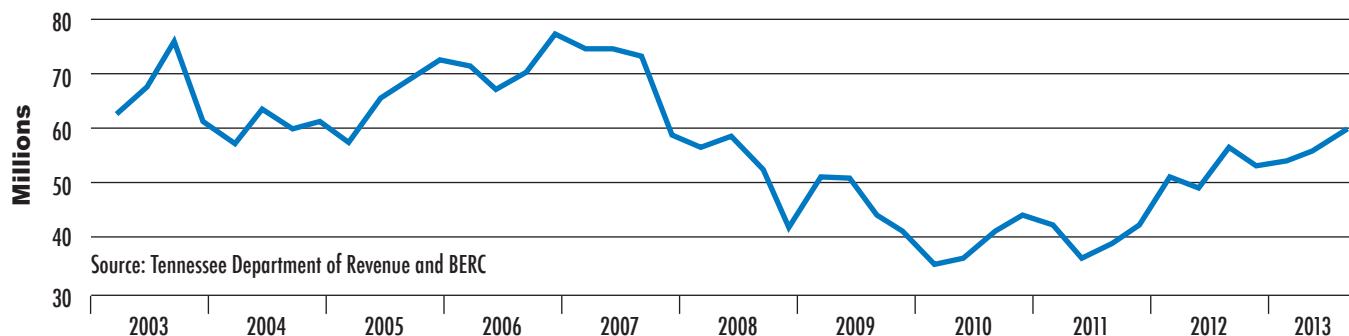
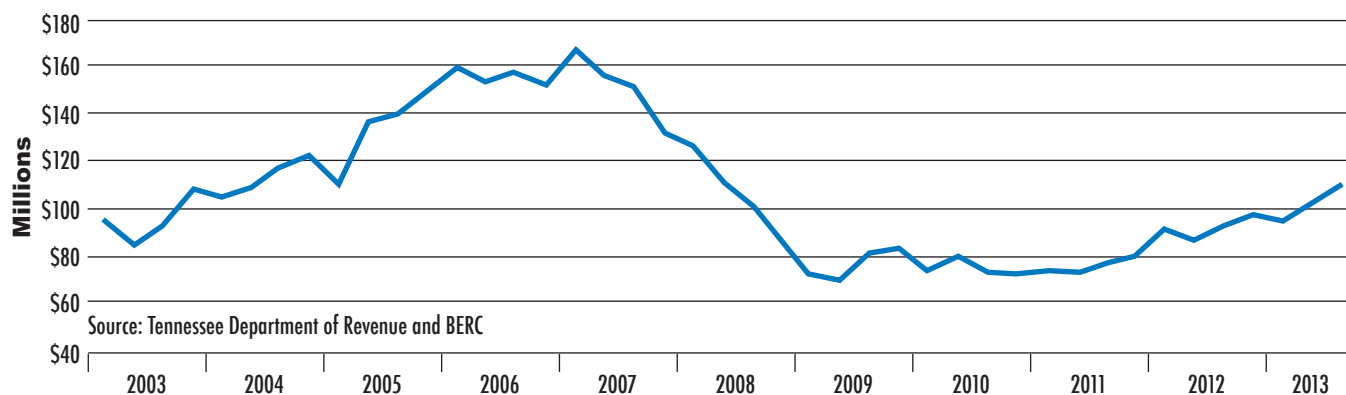


Figure 4. Real estate transfer tax collections (in millions, seasonally adjusted annual rate)



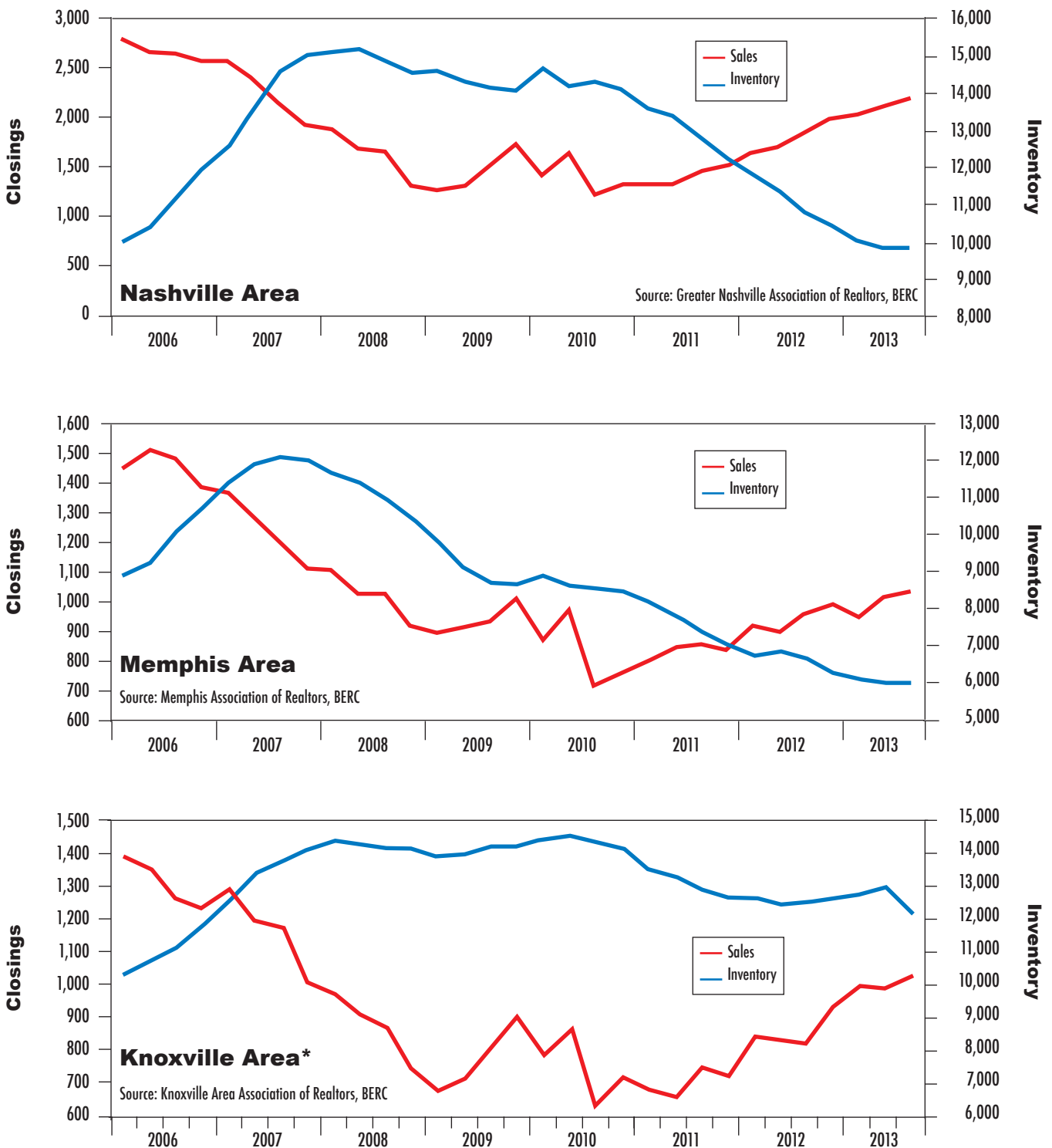
Home Sales

Sales of single-family homes increased in all three metropolitan areas tracked by this report but at a slower pace compared with previous quarters (Figure 5). Sales rose 3% in the Nashville area from the previous quarter after seasonal adjustments, 1.9% in Memphis, and 3.7% in Knoxville. In all three areas, the rate of growth has diminished somewhat.

All three areas show a rising sales trend beginning in 2010. Over the year, sales are up 18.1% in Nashville, 7% in Memphis, and an impressive 24% in the Knoxville area.

Inventories of single-family homes on the market declined in the quarter but at a slower rate than in recent quarters.

Figure 5. Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)



* The Knoxville Area Association of Realtors initiated a new reporting system beginning with data for September 2013. A consequence of the system is that inventory figures are significantly lower compared with previous months.

Home Prices

Prices for homes climbed again during the third quarter for the state and a majority of metropolitan areas in Tennessee. Average prices for Tennessee gained 1.8% over the year, lower than the 2.3% increase in the previous

quarter. Home prices for Tennessee have climbed gradually since 2012 but at a slower pace than the U.S. (Figure 6). The Nashville MSA experienced the largest increase among the 10 MSAs in Tennessee, rising 4.1% over the year.

Figure 6. Tennessee house price index (2000 = 100.0)

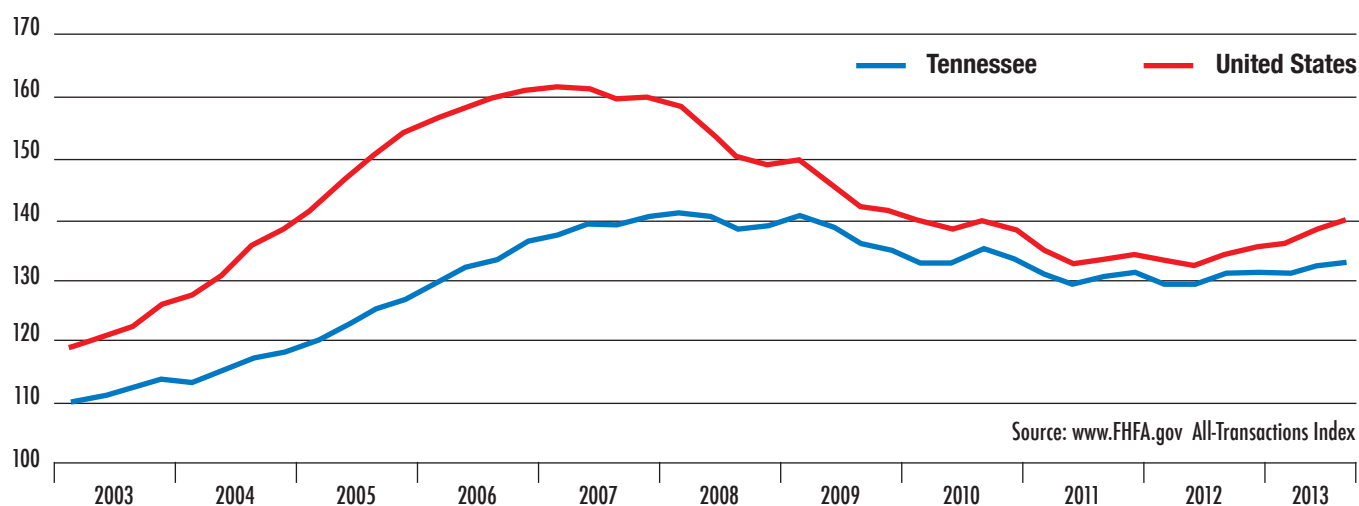


Table 3. Change in housing prices year to year

Area	2011.4–2012.4	2012.1–2013.1	2012.2–2013.2	2012.3–2013.3
U.S.	0.8%	2.3%	4.3%	4.5%
Tennessee	0.4%	1.1%	2.3%	1.8%
Chattanooga MSA	0.8%	1.1%	2.0%	1.2%
Clarksville MSA	0.9%	-1.7%	-0.8%	0.0%
Cleveland MSA	2.2%	0.6%	1.2%	-1.6%
Jackson MSA	0.3%	2.5%	0.4%	-2.6%
Johnson City MSA	0.7%	-0.1%	1.4%	-0.5%
Kingsport-Bristol MSA	-0.6%	1.8%	4.0%	0.9%
Knoxville MSA	-0.2%	0.5%	1.5%	1.2%
Memphis MSA	-0.2%	0.2%	1.6%	0.8%
Morristown MSA	2.1%	-0.6%	1.0%	-0.6%
Nashville MSA	1.3%	2.5%	3.9%	4.1%
TN nonmetro areas	-0.7%	-0.2%	0.9%	0.7%

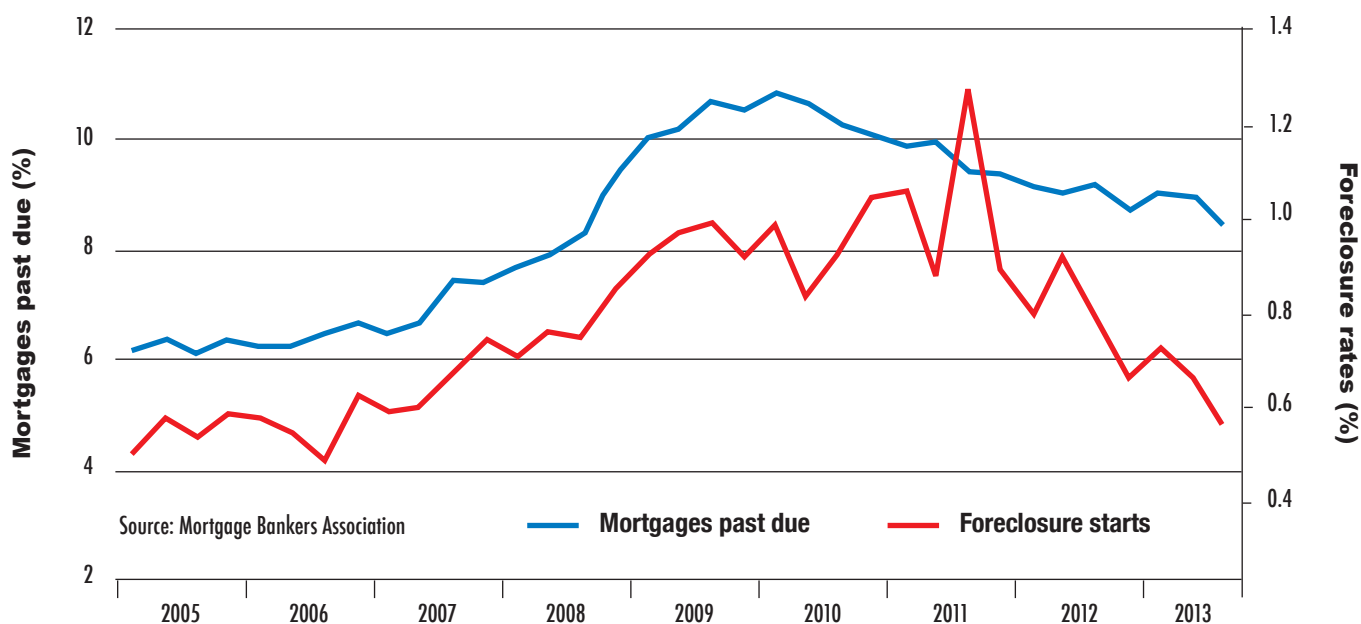
Source: FHFA All-Transactions Index

Mortgage Delinquencies and Foreclosures

The number of delinquent mortgages and foreclosures offer information about the number of households in severe financial stress. Both of these measures improved again during the third quarter in Tennessee. The number of

new foreclosures initiated during the quarter fell to 0.57% of all mortgages, the smallest number since 2006. The number of delinquent mortgages remains elevated at 8.4% but has improved greatly since the peak of 10.8% reached in 2010.

Figure 7. Tennessee mortgages past due and foreclosure starts (percent of mortgages in place)



The housing market in Tennessee improved during the third quarter but at a slower pace.

Conclusion

On balance, the housing market in Tennessee improved during the third quarter but at a slower pace compared with previous quarters. Home sales and housing construction gained but more slowly, and home prices gained but

not as much as in previous quarters. The slower pace of improvement can likely be attributed to the setback on jobs in combination with sharply higher mortgage rates during the third quarter.